GOVERNMENT OF INDIA
PANCHAYATI RAJ
LOK SABHA

UNSTARRED QUESTION NO:2861
ANSWERED ON:10.05.2006
ALLOCATION OF FUNDS TO PANCHAYATI RAJ INSTITUTIONS
Moghe Shri Krishna Murari;Singh Shri Chandrabhan Bhaiya

Will the Minister of PANCHAYATI RAJ be pleased to state:

(a) whether the Union Government has released the funds to the States as per the recommendations of 12th Finance Commission;

(b) if so, the details thereof, State-wise;

(c) whether the Union Government has released the second installment of funds to PRI;

(d) if so, the details thereof, State-wise;

(e) if not, the time by which it is likely to be released; and

(f) the steps taken/ proposed to be taken to make the functioning of PRI more effective?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF PANCHAYATI RAJ (SHRI MANI SHANKAR AIYAR)

(a) & (b) The Twelfth Finance Commission (TFC) had recommended grants amounting to Rs. 20,000 crores payable during the period 2005-10 to augment the Consolidated Funds of the States to supplement the resources of the Panchayati Raj Institutions. The grants are being released by the Ministry of Finance in two equal installments in July and January each year to States as per the inter-se allocation amongst States made by the 12th Finance Commission itself and subject to the submission/ fulfillment of the information/ conditions laid in the guidelines issued by the Ministry of Finance. A copy of the guidelines is enclosed at Annex I. Details of the grants released so far to various States is at Annex II.

(c) to (e) The second installment of the grants have been released by the Ministry of Finance to 12 States so far as per the details furnished by them. Releases to other States are being made as and when they are furnishing the requisite details. Details of releases of second instalment made so far are at Annex II.

(f) Article 243G of the Constitution provides for endowment by State legislatures of powers and authority to Panchayats at the Village, Intermediate and District levels to function as institutions of self-government for
(i) making plans for economic development and social justice for their respective areas, and
(ii) implementing programmes of economic development and social justice in their respective areas, in respect of those matters devolved to them as the State may, by law, specify, including those listed in the Eleventh Schedule of the Constitution, subject to such conditions as they may specify. As the Constitution provides that it is legislatures of States that will endow the Panchayati Raj Institutions with powers and authority, States have devolved powers and responsibilities to the Panchayats in varying measure. In order to evolve a national consensus on the measures to be taken to strengthen Panchayati Raj and ensure that Panchayati Raj Institutions function as institutions of self-government as envisaged in Part IX of the Constitution, the Ministry of Panchayati Raj convened Seven Round Tables of State Ministers of Panchayati Raj between July, 2004 and December, 2004. At the Round Tables, about 150 points for action, covering 18 dimensions of Panchayati Raj, were formulated by consensus. Inter alia, these cover points of action pertaining to both the Centre and the States, relating to the effective devolution of functions, funds and functionaries to Panchayats.

A Council of State Ministers of Panchayati Raj under the Chairmanship of the Union Minister for Panchayati Raj has been constituted to review the implementation of the recommendations. The first meeting of the Council was held on 5th - 6th August, 2005 at Kochi, Kerala. A Committee of Chief Secretaries of States and State Panchayati Raj Secretaries has also been constituted under the Chairmanship of the Union Secretary (Panchayati Raj) to monitor the progress on the implementation of the 150 recommendations of the Seven Round Tables and the decisions of the Council of States Ministers of Panchayati Raj. Five review meetings of the Committee have so far been held in April, 2005, June, 2005, September, 2005, November 2005 and April, 2006.

With a view to interacting with Panchayats and carrying out a review with the authorities concerned of the progress in implementing the points for action mutually agreed to in the Round Tables, a process of visiting the States and UTs at the level of Union Minister for Panchayati Raj has been initiated. Twelve States and two Union Territories have been covered so far. These include Karnataka, West Bengal, Uttaranchal, Haryana, Chhattisgarh, Orissa, Arunachal Pradesh, Rajasthan, Sikkim, Goa. Andhra Pradesh, Punjab, Lakshadweep and Chandigarh. Each visit is concluded with a Statement of Conclusions jointly signed by the Union Minister with the Chief Minister of the State concerned, laying out the points of action on which the State would move to operationalise the

recommendations of the Round Tables.

An exercise is underway to review different statutes with a view to harmonise them with the provisions of Part IX of the Constitution. Similarly, the guidelines of Centrally Sponsored Schemes are being reviewed to ensure the centrality of Panchayats in planning and implementation. As regards new Centrally Sponsored Schemes, wherever relevant, it is proposed to provide for a central role for Panchayats. Thus, for example, the National Rural Employment Guarantee Act provides for the Panchayats to be the `principal authorities` for the planning and implementation of schemes under the Act. Steps are also being taken to fill in critical gaps in infrastructure and capacity so that Panchayats can effectively fulfill their constitutional role.

ANNEX

Guidelines for Release and Utilisation of Grants recommended by the Twelfth Finance Commission for supplementation of the Consolidated Funds of the States of supplementing the resources of the Rural and Urban Local Bodies (Local Bodies Grants).

1.0 TWELFTH FINANCE COMMISSION`S RECOMMENDATIONS OF LOCAL BODY GRANTS AND INTER-STATE DISTRIBUTION.

1.1 The Twelfth Finance Commission (TFC) was required to make recommendations on the measures needed to augment the Consolidated Funds of the States to supplement the resources of the Panchayats and Municipalities on the basis of the recommendations of the State Finance Commissions (SFCs). TFC has given recommendations on this term of reference, which have been accepted by the Union Government.

1.2 The Twelfth Finance Commission (TFC) has recommended grants amounting to Rs.25,000 crores payable during the period 2005-10 (Rs.20,000 crores for Panchayats and Rs.5,000 crores for Municipalities) to State for Rural and Urban Local Bodies. The inter-State allocation recommended by TFC for Rural Local Bodies i.e. Panchayati Raj Institutions (PRIs) and for Urban Local Bodies (ULBs) given at Table 8.1 of the Report of the TFC are reproduced at Annexure-I. The inter-se allocation amongst States is based on factors and weights assigned by the TFC as under:

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Criterion     Weight (per cent)


i) Population    40


ii) Geographical area   10


iii) Distance from highest per capita income 20


iv) Index of deprivation   10


v) Revenue effort     20


of which (a) with respect to own revenue of states 10


   (b) with respect to GSDP   10
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1.3 The allocation amongst various Municipalities and Panchayati Raj Institutions and also autonomous councils in excluded areas would be made by the States.

2. OBJECTIVES OF THE LOCAL BODY GRANTS SCHEME

2.1 TFC felt that grants for PRIs should be used to improve the service delivery by the Panchayats in respect of water supply and sanitation. Panchayats need to be encouraged to take over water supply assets created under the Swajaldhara Programme and maintain them with the help of these grants.

2.2 TFC has stressed the importance of public private partnership to enhance service delivery of solid waste management services in urban areas. TFC has urged that States may require municipalities of towns of over 100,000 population as per 2001 census to prepare comprehensive scheme including composting and waster to energy programmes to be undertaken in the private sector for appropriate funding from the grants recommended by the TFC. TFC has suggested earmarking of at least 50% of grants for this purpose

2.3 TFC has further felt it to be imperative that high priority need to be assigned to creation of database and maintenance of accounts at the grass root levels.

3. RECOMMENDATIONS OF THE TFC

3.1 The summary of the recommendations of the TFC is reproduced below:
i) The best practices listed in para 8.19 of the report (included in para 4 of these guidelines) may be considered for adoption by States to improve the resources of the panchayats.
ii) The States should avoid delays in the constitution of the SFCs, their constitution in phases, frequent reconstitution, submission of reports and tabling of the ATR in the legislature. It is desirable that SFCs are constituted at least two years before the required date of submission of their recommenda-tions, and the deadline should be so decided as to allow the state government at least three months` time for tabling the ATR, preferably along with the budget for the ensuing financial year.
iii) The SFC reports should be readily available to the Centra! Finance Commission, when the latter is constituted so that an assessment of the state`s need could be made by the Central Finance Commission on the basis of uniform principles. This requires that thehse reports should not be too dated. As the periodicity of constitution of the Central Finance Commission is predictable, the States should time the constitution of their SFCs suitably.
iv) SFCs must be constituted with people of eminence and competence with qualification and experience in the relevant fields.
v) The convention established at the national level of accepting the principal recommendations of the Finance Commission without modification should be followed at the State level in respect of SFC reports.
vi) The SFCs must clearly identify the issues which require action on the part of the central government to augment the consolidated fund of the State and list them out in a separate chapter for the consideration of the Central Finance Commission.
vii) The suggestions made by SFCs regarding raising the ceiling on professional tax is endorsed for action by Central Government,
viii) It is desirable that the SFCs follow the procedure adopted by the Central Finance Commission for transfer of resources from the Centre to the States in respect of resources transfers from State Governments to local bodies. The SFC reports should contain an estimation and analysis of the finances of the State government as well as the local bodies at the pre and post transfer stages along with a qualification of tne revenues that could be generated additionally by the local bodies by adopting the measures recommended therein. The gaps that may still remain would then constitute the basis for the measures to be recommended by the Central Finance Commission.
ix) While estimating the resources of the local bodies, the SFCs should follow a normative approach in the assessment of revenues and expenditure rather than made forecasts based on historical trends,
x) A permanent SFC cell may be created in the finance department of State governments as the collection and collation of data would need to be done constantly and data would need to be made available to the SFC as and when it is constituted.
xi) A sum of Rs.20,000 crore for the Pnachayats and Rs.5000 crore for the Municipalities may be provided as grants-in-aid to augment the consolidated fund of the States for the period 2005-10 to be distributed with inter-se shares as indicated in table 8.1 of the report. (Annex-I)
xii) The PRIs should be encouraged to take over the assets relating to water supply and sanitation and utilize the grants for repairs/rejuvenation as also the O&M costs. The PRIs should, however, recover at least 50 percent of the recurring costs in the form of user charges.
xiii) Of the grants allocated for Panchayats, priority should be given to cub expenditure on the O&M costs of water supply and sanitation. This will facilitate Panchayats to take over the schemes and operate them.
xiv) At least 50 per cent of the grants-in-aid provided to each State for the urban local bodies should be earmarked for the scheme of solid waste management through public-private partnership. The Municipalities should concentrate on collection, segregation and transportation of solid waste. The cost of these activities whether carried out in house or out sourced could be met from the grants.
xv) Most States do not have credible information on the finances of their local bodies. Local bodies would continue to need funding support for building data base and maintenance of accounts. States may assess to tne requirement of each local body in this regard and earmark funds accordingly out of the total allocation recommended by us.
xvi) Separate grants-in-aid for the normal and the excluded areas are not proposed. It is for the State concerned to distribute the grants recommended for the State among the focal bodies including those in the excluded areas in a fair and just manner.
xvii) No conditionaiity over and above these recommended by us need be imposed by the Central Government for releasing the grants-in-aid.

4.0 BEST PRACTICES FOR AUGMENTING THE RESOURCES OF THE

4.1 TFC has recommended best practices for augmenting the resources of the PRIs based on a study conducted by the TFC and have commended them for adoption by the States. The best practices are reproduced below:
i) Levy of certain major taxes and exploitation of non-tax revenue sources be made obligatory for the Panchayats. The minimum rates for all such levels be fixed by the State government;
ii) A minimum revenue collection from the Panchayat taxes be
iii) Incentive grants related to revenue collection beyond a prescribed minimum be introduced by the State government;
iv) User charges be made obligatory levies;
v) All common property resources vested in the village Panchayats may be identified, listed and made productive of revenue;
vi) Valuation of taxable lands and buildings should be done by a separate cell in the Pnachayati Raj Department of the State Government and not left to the panchayats;
vii) Powers to levy a tax/surcharge/cess on agricultural holdings should be given to the intermediate or district Panchayats;
viii) Revenue transfers from the States to Panchayats in the form of revenue sharing/revenue assignment be made statutory in nature;
ix) State Governments should desist from unilaterally taking decisions in regard to revenues whose proceeds are to be transferred either in full or in part to the panchayats;
x) The quantum of revenue that a Panchayat can reasonably expect under the revenue sharing mechanism should be predictable;
xi) State Government should adhere to its commitment in regard to the grants-in-aid; all untied grants to the panchayats should be made statutory in nature;
xii) SFC should be constituted for a lifespan of 18 months and a time limit of six months be prescribed for a State government to act on the SFC recommendations; The maintenance of accounts by the Panchayats be standardized; Panchayat department officials should not be made statutory auditors of the village Panchayats; the accounts of the intermediate and district Panchayats be subjected to audit by Comptroller and Auditor General (C&AG);

xiv) A performance audit system be adopted.

5.0 MONITORING AGENCIES:

5.1 Every State shall constitute a High Level Committee (HLC) to ensure proper utilization of Local Bodies Grants.

5.2 This HLC shall be headed by the Chief Secretary to the State Government and will include Finance Secretary and Secretaries of the concerned Departments as members.

5.3 HLC shall be responsible for the following:

a. Approval of the projects at the beginning of every year to be undertaken in each sector, quantify the targets, both in physical and financial terms and lay down a time-table for achievement of specific milestones;

b. Monitoring both physical and financial targets and ensuring adherence to the specific conditionalities in respect of each grant, wherever applicable;

5.4 HLC shall meet at least once in every quarter to review the utilization of grants and to issue directions for mid-course correction, if considered necessary. Minutes of HLC meetings shall be provided to the Department of Expenditure (Finance Commission Division), Ministry of Finance, Government of India for information.

5.5 A Central Review Committee will be constituted in the Government of India, headed by Secretary to Government of India, Ministry of Finance, Department of Expenditure to review the releases and utilization of grants. The Committee will include representatives from the Ministry of Panchayati Raj, Ministry of Urban Development and Poverty Alleviation, Ministry of Home Affairs and Ministry of Finance (Department of Expenditure). The Committee shall meet at least once in a year.

5.6 Given the much higher quantum of grants and larger number of rural local bodies, a separate Committee for Panchayati Raj Institutions (PRIs) will be constituted to monitor the mode of release of local body grants to Panchayats as mentioned in the Guidelines in para 6.1 to para 7. The Committee will be chaired by Secretary to

Government of India, Ministry of Panchayati Raj with the Joint Secretary (State Finances) and Financial Adviser (Panchayati Raj) as Member and Jt. Secretary (Panchayati Raj) as Member Secretary. The Committee shall meet at least once in a quarter. This Committee shall bring out the points for intervention by Government of India in Ministries of Panchayati Raj and Finance to ensure smooth and uninterrupted flow of funds to PRIs.

6.0 MODE OF RELEASE OF LOCAL BODY GRANTS TO STATES.

6.1 Local bodies grants will be released in two equal instalments in July and January every year. States have to mandatorily transfer the grants released by the Centre to the PRIs and ULBs within 15 days of the same being credited to theStates` account

Elected Panchayats as per the provisions of the Constitution.

6.2 Two sets of details, one on allocation of funds and another on release of funds, will be reported by the State Government in the format prescribed at Annexure II for the purpose prior to the release of each instalment by the Government of India. However, the first six monthly instalment for 2005-06 shall be released to a State after receiving only the details (in the above said format) of the allocation of these funds to the PRIs and ULBs in that State. All subsequent instalments shall be released after receiving both sets of details -the certificate of the release of funds to the PRIs and ULBs for the previous instalment and the information about allocation of funds for the subsequent instalment.For the first instalment for 2005-06, information on allocation upto district level alone need to be sent by the State. For the subsequent releases, the break up of the allocation to each PRI and ULB at the three levels should be provided. The States are advised to inform Government of India about allocated share of each PRI and ULB at all levels before October 31, 2005. The certification and allocation information (as per the format) may please be sent to the Ministry of Finance both in hard copy as well as on a magnetic media (e.g. floppy or CD). State Finance Secretary would be required to provide a certificate within 15 days of the release of each instalment by Government of India under his signature certifying the dates and amounts of local grants received by the State from the Government of India, and the dates and amounts of grants released to the PRIs and ULBs. This certification and information will be in the above mentioned format.

6.3 State Finance Secretary would also be required to provide a certificate every year of the percentage of grants spent by the ULBs on schemes of solid waste management and on schemes of water supply and sanitation by the PRIs. States would also be required to provide details of recurring O&M cost recoverable by the PRIs on schemes of water supply.

6.4 The second instalment of local bodies grants for the year 2005-06 shall be released upon receipt of the release certificate for the previous instalment and allocation information for the subsequent instalment referred to in para 6.2. In case of delayed transfer to PRIs/ULBs beyond the specified period of 15 days, the State Government shall transfer to PRI/ULB amount of interest at the rate equal to the RBI Bank rate along with such delayed transfer of grants.

6.5 The second instalment from the year 2006-07 would be released on receipt of the certificate referred to in para 6.1 in addition to the release certificate and allocation information referred to in para 6.2. Government of India will wihhold the amount short spent on the schemes of solid waste management by the ULBs and on schemes of water supply and sanitation by the PRIs, The withheld amount will be subsequently reimbursed upon confirmation that the short spending has been compensated in the subsequent period.

7.0 AUDIT BY THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

7.0 Comptroller and Auditor General of India would be expected to audit the release and use of the local bodies grants within the time and for the purposes mentioned by the TFC, reproduced above. Government of India may take appropriate decision about withholding grants of a State if the Comptroller and Auditor General of India reports that the State has either not transferred the grants to the local bodies or has allowed the grants to be used for purposes other than for which these are being provided or that local bodies have not been able to give priority to spend on the O&M of water supply and sanitation for the rural areas and on schemes of solid waste management in the urban areas.

Sd/-
(Anurag Goel)
Additional Secretary to Government of India
Department of Expenditure

ANNEXURE-I (T0 THE GUIDELINES ISSUED BY MINISTRY OF FINANCE)

SHARES OF STATES IN ALLOCATION (2005-10)

Sl.No.	STATE	Panchayats		Municipalities	
		Per cent	(Rs. Crore)	Per cent	(Rs. Crore)
1.	Andhra Pradesh	7.935	1587.00	7.480	374.00
2.	Arunachal Pradesh	0.340	68.00	0.60	3.00
3.	Assam	2.630	526.00	1.100	55.00
4.	Bihar	8.120	1624.00	2.840	142.00
5.	Chhatisgarh	1.075	615.00	1.760	88.00
6.	Goa	0.090	18.00	0.240	12.00
7	Gujarat	1.655	911.00	8.280	414.00
8.	Haryana	1.940	188.00	1.820	91.00
9.	Himachal Pradesh	0.735	147.00	0.160	8.00
10.	Jammu & Kashmir	1.405	281.00	0.760	38.00
11.	Jharkhand	2.410	482.00	1.960	98.00
12.	Kamataka	4.440	888.00	6.460	323.00
13.	Kerala	4.925	985.00	2.980	149.00
14.	Madhya Pradesh	8.315	1663.00	7.220	361.00
15.	Maharashtra	9.915	1983.00	15.820	791.00
16.	Manipur	0.230	46.00	0.180	9.00
17.	Meghalaya	0.250	50.00	0.160	8.00
18.	Mizoram	0.100	20.00	0.200	10.00
19.	Nagaland	0.200	40.00	0.120	6.00
20.	Orissa	4.015	803.00	2.080	104.00
21.	Punjab	1.620	324.00	3.420	171.00
22.	Rajasthan	6.150	1230.00	4.400	220.00
23.	Sikkim	0.065	13.00	0.020	1.00
24.	Tamil Nadu	4.350	870.00	11.440	572.00
25.	Tripura	0.285	57.00	0.160	8.00
26.	Uttar Pradesh	14.640	2928.00	10.340	517.00
27.	Uttaranchal	0.810	162.00	0.680	34.00
28.	West Bengal	6.355	1271.00	7.860	393.00
	Total	100.000	20000.00	100.000	5000.00

ANNEX-II

Position regarding release of instalments of Twelfth Finance Commission Grants to Panchayati Raj

2005-06

(Rs. in lacs)

Sl.No.	State	Total allocation	Amount of one instalment	1st instalment	2nd instalment	Total amount released
1	Andhra Pr.	158700	15870	15870	15870	31740
2	Arunachal	6800	680			0
3	Assam	52600	5260	5260	5260	
4	Bihar	162400	16240	16240	16240	
5	Chhattisgarh	61500	6150	6150	6150	12300

6 Goa 1800 180 180 180
7 Gujarat 93100 9310 9310 9310 18620
8 Haryana 38800 3880 3880 3880 7760
9 Himacnal 14700 1470 1470 1470 2940
10 J & K# 28100 2810 1762 1762
11 Jharkhand @@ 48200 4820 0
12 Karnataka 88800 8880 8880 8880
13 Kerala 98500 9850 9850 9850 19700
14 Madhya Pr 166300 16630 16630 16630 33260
15 Maharashtra 198300 19830 19830 19830 39660
16 Mampur 4600 460 212 212
17 Meghataya # 5000 500 0
18 Mizoram 2000 200 200 200 400
19 Nagaland # 4000 400 400 400
20 Orissa 80300 8030 8030 8030 16060
21 Punjab 32400 3240 3240 3240
22 Rajasthan 123000 12300 12300 12300 24600
23 Sikkim 1300 130 130 130
24 Tamilnadu 87000 8700 8700 8700 17400
25 Tripura 5700 570 570 570
26 U.P 292800 29280 29280 29280 58560
27 Uttaranchal 16200 1620 1620 1620
28 West Bengal 127100 12710 12710 12710 25420

Total 2000000 200000 192704 154210 346914

Excluding share of PRI Grants pertaining to Hill areas amounting to Rs 248 40 lacs. After deductinq Rs. 1048.03 lacs beinq share of PRIs where elections have not been held.

- These States are not covered under Part IX of the Constitution

@@ - Elections are yet to be heid.